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UNCLAS SECTION 01 OF 02 HANOI 002540

SIPDIS

SENSITIVE

STATE FOR EB, E, EAP/BCLTV  
STATE PASS USTR FOR EBRYAN  
USDOC FOR AUTO AFFAIRS SCOTT KENNEDY  
USDOC ALSO FOR 6500 AND 4431/MAC/AP/OKSA/VLC/HPPHO  
TREASURY FOR OASIA

E.O. 12958: N/A

TAGS: [ETRD](#) [EIND](#) [EFIN](#) [EINV](#) [ECON](#) [ETRD](#) [VM](#)

SUBJECT: STORM OVER RESTRICTIVE AUTO COMPONENT TARIFFS

SENSITIVE BUT UNCLASSIFIED -- PROTECT ACCORDINGLY.

REF: A. 02 HANOI 3029  
[B](#). 02 HANOI 3106  
[C](#). HANOI 7710  
[D](#). HANOI 1814

[1](#)1. (SBU) SUMMARY: Since last year the GVN has sought to develop Vietnam's auto industry by increasing the local content in domestically produced vehicles. Tax and tariff policy has been the main policy used to achieve this goal. Reps of foreign automakers with production in Vietnam believe these decisions will have a disastrous impact on their operations and Vietnam's auto industry. Auto sales have spiked as Vietnamese prepare for a potential significant hike in car prices. GVN explanations for this strategy are unclear. Embassy has raised this issue and its potential impacts on various occasions with the GVN and the international community. Apparently, the GVN believes it has the right to change things in unpredictable ways once foreign firms have started operations. We believe this issue sends a mixed message to foreign investors and should be raised during the upcoming visits of MPI Minister Phuc and others to the U.S. END SUMMARY.

[1](#)2. (U) A December 2002 Prime Ministerial decision (Ref A) laid out a strategy to develop Vietnam's auto industry by sharply increasing the local content in domestically produced vehicles. The Ministry of Finance has pursued this strategy by harmonizing duty and tax rates applied to imported auto component kits (used by all automakers in Vietnam to produce cars, vans, and trucks) with the high tariff rates applied to imported completely built vehicles. These efforts have persisted despite an effective joint campaign by Ford Vietnam, GM Daewoo, and other auto producers in Vietnam as well as Ambassador and like-minded embassies (Refs A and B).

[1](#)3. (U) In May, the National Assembly passed an MOF proposal to include special consumption tax (SCT) and value added tax (VAT) increases as part of a larger package of tax changes. The NA decision will increase the VAT on all vehicles from five to ten percent in 2004 and will increase the SCT on cars manufactured from kits (CKDs) starting in 2004 and going up to eighty percent on some models by 2007. In addition, the MOF has completed a 2004-2010 roadmap to harmonize tariff rates applied to CKDs and completely built units (CBUs). Under this roadmap, the MFN rates applied to CKDs will rise 5-10 percent per year until 2008, including a five percent increase, which began on September 1. Meanwhile, the MOF has stated that it plans to reduce rates for CBUs in accordance with WTO accession negotiations.

[1](#)4. (U) These changes already appear to be affecting the market. According to recent press reports, car sales have spiked in recent months. The first seven months of the year saw a 42 percent increase in sales over the same period last year, with more than 18,600 cars sold during the period. Based on this trend, the Vietnam Auto Manufacturers Association (VAMA) has said that the number of cars sold in 2003 could reach 32,000. Press reports also predict that the price of locally produced cars will have to rise between 18 and 30 percent to accommodate the new tax rates.

[1](#)5. (SBU) GVN officials are inconsistent in their explanations for implementing the new auto policy. Generally, MOF officials have cited the policy as part of MOF's overall efforts to reform the tax system. MOF has also cited the need to develop a local content industry, the GVN to adhere to its commitments to the international financial institutions (IFIs), and the harmonization of taxes on CBUs and CKDs (see Ref C and D). Deputy Prime Minister Vu Khoan tried to explain that this policy of adjusting tariff rates is designed to suit WTO standards. Minister of Trade Tuyen (and other MOT officials) have argued that auto producers in Vietnam make very high profits. He also cited the need for increased local content

and the development of an auto industry in Vietnam. Minister of Planning and Investment Phuc has explained that the GVN must decrease certain taxes, such as the SCT, and impose similar tax rates between locally manufactured and imported cars in order to follow their commitments to international institutions. (See Ref C)

16. (SBU) Econoff has confirmed that this policy did not originate with the local IMF and World Bank reps. Instead, they share Embassy's displeasure with the proposal. Although they agree with the need to harmonize tax rates for CBUs and CKDs, they do not support any increase in tariffs. Further, they are also concerned about how this decision was made and its potential effect on investment. Until now, the IFIs have viewed trade liberalization as the strongest part of Vietnam's reform program, but this decision has cast some doubt on their assessment.

17. (SBU) COMMENT: Although the reasons behind these changes appear to vacillate, the GVN's commitment to increase the taxes and tariffs on locally-manufactured cars is unwavering despite intense pressure from many directions. Some in the foreign auto industry here have cited this as a major threat to their business since their investment analysis did not assume car prices would suddenly rise by 25% or more. The GVN clearly wants to attract foreign investment, hence the mission to the U.S. by Minister of Planning and Investment Phuc. Apparently, the GVN believes it has the right to change things in unpredictable ways once foreign firms have started operations. We believe this issue sends a mixed message to foreign investors that should be raised during the upcoming visits of MPI Minister Phuc and others to the U.S.  
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